Saskatchewan
Finance

Annual Report 2001

Public Employees Disability Income Fund

TABLE OF CONTENTS

Letters of Transmittal 2

Introduction 4

Operation of the Plan 4

Management's Report 6

Financial Statements

- Auditor's Report 8
- Statement of Financial Position 9
- Statement of Operations and Net Assets 10
- Statement of Cash Flows 11
- Notes to the Financial Statements 12

Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

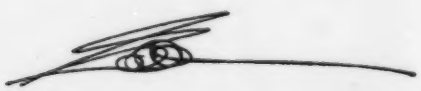
Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the eleventh Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2001.

I have the honour to be, Madam,

Your obedient servant,



Eric Cline
Minister of Finance

Saskatchewan
Public Employees
Benefits Agency

The Honourable Eric Cline
Minister of Finance
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the eleventh Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2001.

Respectfully submitted,

Brian Smith
Executive Director

INTRODUCTION

The Public Employees Disability Income Plan was established in 1978.

The Plan provides long-term disability benefits to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

As at December 31, 2001 there were approximately 11,761 insured employees representing the following participating employer groups:

Agricultural Credit Corporation of Saskatchewan
Battlefords District Health Board - Battlefords Regional Care Centre
Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)
Board of the Saskatchewan Centre of the Arts
Children's Advocate
Crown Investments Corporation of Saskatchewan
Farm Land Security Board
Information and Privacy Commissioner
Legislative Assembly (Members of the)
Legislative Assembly Office (Employees of the)
Legislative Library (Employees of the)
Liquor and Gaming Authority
Lloydminster District Health Board
Meewasin Valley Authority
Milk Control Board
Moose Mountain District Health Board
NDP Caucus Office
NorthWest District Health Board
Office of the Children's Advocate
Office of the Information and Privacy Commissioner
Office of the Leader of the Opposition
Office of the Legislative Counsel and Law Clerk (Employees of the)
Office of the Ombudsman
Office of the Provincial Auditor
Ombudsman
Pipestone District Health Board
Power Greenhouses Inc.
Prairie Diagnostic Services
Provincial Auditor
Public Service of Saskatchewan as defined by *The Public Service Act*, excluding employees covered by the Saskatchewan Government Employees' Union
Saskatchewan Arts Board
Saskatchewan Assessment Management Agency
Saskatchewan Cancer Foundation
Saskatchewan Communications Network Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Health Information Network
Saskatchewan Human Rights Commission
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Land Information Services Corporation
Saskatchewan Municipal Board
Saskatchewan Party Caucus
Saskatchewan Power Corporation
Saskatchewan Property Management Corporation
Saskatchewan Telecommunications Holding Corporation
SaskEnergy Incorporated
Sask Pork
South East District Health Board
St. Louis Alcoholism Rehabilitation Centre
Tourism Authority
TransGas Limited
Wakamow Valley Authority
Wanuskewin Heritage Park Corporation
Wascana Centre Authority
Western Development Museums
Workers' Compensation Board (The)

OPERATION OF THE PLAN

Administration

The Public Employees Disability Income Plan is self-insured and is managed by the Public Employees Benefits Agency, Saskatchewan Finance.

The Disability Income Plan Advisory Council has been established under Section 16 of *The Government Organization Act* and is comprised of an equal number of management and union representatives appointed by Minister's Order.

The Co-operators Life Insurance Company is on contract under an Administrative Services Only agreement to provide claims adjudication and benefit payment to the Plan.

The Occupational Rehabilitation Group of Canada (ORGOC) and Northern Rehabilitation

and Consulting Services Inc. (NRCS) provide rehabilitation services to the Plan.

Administration Costs

Public Employees Benefits Agency Revolving Fund:

The costs of administering the Public Employees Disability Income Fund are a charge on and paid out of that Fund. These expenditures are paid to the Public Employees Benefits Agency Revolving Fund.

Investment Management Services:

The Minister of Finance is authorized to invest any part of the monies standing to the credit of the Disability Income Fund in any securities authorized for investment pursuant to the "Investment Policy Guidelines".

The Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Investment Counselling Limited.

Funding

Prior to June 1, 1994, funding for the Plan was at a rate of .96% of an employee's basic monthly salary cost shared equally. Effective June 1, 1994, funding for the plan is at a rate of 1.02% of an employee's basic monthly salary cost-shared as follows:

.48% salary - employee share
.48% salary - employer share
.06% salary - employer share to fund pension contributions

Several employers pay the full 1.02% premium on behalf of their employees.

Benefits

After serving a Qualifying Period of 119 calendar days, the gross monthly disability benefit is equal to 75% of pre-disability basic monthly salary.

Benefits are initially payable while an employee is occupationally disabled (unable to work at his/her own occupation). This period covers 24 months from the date of disability.

Thereafter, the employee must be totally disabled from any reasonable occupation for benefits to continue.

Benefits will continue under the total disability provision until the earlier of age 65 or retirement.

Premiums/Claims Experience

	Dec. 31, 2001	Dec. 31, 2000
Premiums	$6,004,145	$6,080,609
Claims	$5,692,501	$5,689,623
# Active Claims at December 31	239	238

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Public Employees Disability Income Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

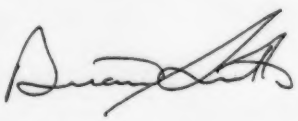
The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

The report of a valuation actuary on the provision for claims payable of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management, has been used in the preparation of the financial statements.

We believe the Public Employees Disability Income Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian generally accepted accounting principles.

The Disability Income Plan Advisory Council was established in 1978 and is comprised of an equal number of management and labour representatives. It is responsible for reviewing policies and procedures governing the operations of the Disability Income Plan, address appeals where benefits have been declined by the insurance carrier and oversee management of the investment fund.

We enclose the financial statements of the Public Employees Disability Income Fund for the year ended December 31, 2001 and the Provincial Auditor's report on these financial statements.



Brian Smith
Executive Director
Public Employees Benefits Agency

Perry Bahr
Director, Benefit Programs
Public Employees Benefits Agency

Regina, Saskatchewan
February 21, 2002

PUBLIC EMPLOYEES DISABILITY INCOME FUND

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Public Employees Disability Income Fund as at December 31, 2001 and the statements of operations and net assets, and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
February 21, 2002

Fred Wendel, CMA, CA
Acting Provincial Auditor

PUBLIC EMPLOYEES DISABILITY INCOME FUND **STATEMENT 1**
STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	2001	2000
ASSETS		
Current Assets:		
Cash	$ 376	$ 80
Accounts receivable (Note 8)	465,897	536,017
Receivable from Co-operators Life Insurance Company (Note 8)	470,078	392,818
	936,351	928,915
Due from Co-operators Life Insurance Company	53,693,429	52,080,850
Total assets	$54,629,780	$53,009,765
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable (Note 8)	$ 60,238	$ 192,235
Provision for claims payable (Note 3)	38,498,000	36,745,000
Total Liabilities	38,558,238	36,937,235
NET ASSETS (Statement 2)	16,071,542	16,072,530
TOTAL LIABILITIES AND NET ASSETS	$54,629,780	$53,009,765

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES DISABILITY INCOME FUND
STATEMENT OF OPERATIONS AND NET ASSETS

STATEMENT 2

YEAR ENDED DECEMBER 31

	2001		2000
	Budget (Note 9)	Actual	Actual
REVENUE			
Premiums	$ 6,430,000	$ 6,004,145	$ 6,080,609
Investment Income	3,600,000	2,365,111	5,975,756
	10,030,000	8,369,256	12,056,365
EXPENSE			
Disability benefits	5,700,000	5,692,501	5,689,623
Change in provision for claims payable (Note 3)	-	1,753,000	2,307,000
Administration (Note 4)	689,581	541,704	618,633
Adjudication fees	240,000	243,881	314,644
Management fees (Note 5)	128,000	139,158	116,645
	6,757,581	8,370,244	9,046,545
(Deficit) surplus for the year	3,272,419	(988)	3,009,820
NET ASSETS, BEGINNING OF YEAR	16,072,530	16,072,530	13,062,710
NET ASSETS, END OF YEAR - Statement 1	$19,344,949	$16,071,542	$16,072,530

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES DISABILITY INCOME FUND **STATEMENT 3**
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

	2001	2000
Cash flows from operating activities:		
Premiums received	$ 5,997,187	$ 5,739,286
Disability benefits paid	(5,688,466)	(6,051,747)
Administration expenses paid	(677,918)	(497,632)
Adjudication fees paid	(243,881)	(314,644)
Management fees paid	(139,158)	(116,645)
	(752,236)	(1,241,382)
Cash flows from investing activities:		
Proceeds from sale of investments	2,365,111	5,975,756
Purchase of investments	(1,612,579)	(4,736,435)
	752,532	1,239,321
Net increase (decrease) in cash	296	(2,061)
CASH, BEGINNING OF YEAR	80	2,141
CASH, END OF YEAR	$ 376	$ 80

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES DISABILITY INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. Description of Fund

The Public Employees Disability Income Fund (PEDIF) is a special purpose fund used to account for the premiums, claims, investment and certain administrative transactions of the Disability Income Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993.*

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides a level of income protection during periods of occupational or total disability. Plan participants are certain employees of the public service of the Province of Saskatchewan and Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Plan is administered under the terms of an agreement with The Co-operators Life Insurance Company.

Employees and employers pay premiums monthly. Employees contribute 0.48% of their basic monthly salary and employers contribute 0.54%, except for some plan participants where the employer pays 100%.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant.

a) Premiums revenue

Premiums are recognized as revenue when due.

b) Disability benefits expense

Disability benefits expense is recognized commencing in the year the claim is approved.

c) Due from Co-operators Life Insurance Company (Co-operators)

According to the agreement between PEBA and Co-operators, Co-operators has established a segregated fund for the investment of PEDIF monies. The balance in this segregated fund is a debt due by Co-operators to PEDIF and is represented by the investments held in the segregated fund.

The segregated fund is valued at market and any increase/decrease in the value of the segregated fund is accounted for in the statement of operations and net assets as investment income.

Fair value of the segregated fund approximates its market value.

d) Provision for claims payable

The provision for claims payable represents the present value of future payments arising from claims made prior to year end. This provision includes an estimated amount for claims incurred but not yet reported at year end. The provision for claims payable is determined pursuant to an

actuarial valuation. Any resulting change in this liability is recognized as a revenue or expense in the statement of operations and net assets.

e) Cash

Cash consists of balances with the bank.

3. Provision for Claims Payable

An actuarial valuation was performed by Aon Consulting Inc. as at December 31, 2001 and as at December 31, 2000 to value the liability for the future cost of claim payments to disabled members which includes a provision for claims incurred but not yet reported.

The actuarial valuation of claims as at December 31 and the principal components of the change in actuarial valuation during the year, were as follows:

	2001	2000
Actuarial valuation, beginning of year	$36,745,000	$34,438,000
Interest accrued on benefits	2,297,000	2,152,000
Experience (gain)	(497,000)	(1,230,000)
Change in assumptions	-	556,000
New claims	6,012,000	6,668,000
Expected benefits payments	(6,059,000)	(5,839,000)
Actuarial valuation, end of year	$38,498,000	$36,745,000

The valuation is based on the following assumptions: 1) the allowance for claim termination is based on the 1987 Group Long Term Disabilities valuation tables published by the Society of Actuaries adjusted for experience; 2) the interest rate assumed is 6.25% (2000 – 6.25%); 3) a maximum 3% consumer price indexing of benefits before offset each year; 4) the inflation rate assumed is 3% for all future years (2000 – 3.25% for all future years).

The amount of benefits payable under the Disability Income Plan may be increased on October 1 each year. The increase in benefits is indexed, subject to a maximum of 3% per annum, to the Consumer Price Index for the year ending on the immediately preceding July 1.

If the valuation assumed no cost of living allowance indexing of benefits each year, the liability at December 31, 2001 would be $31,750,000 (2000 - $30,269,000).

The liability for claims is based on a number of assumptions about future events including: recovery and mortality rates, interest rate and expected benefits from other sources. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate, cost of living adjustment and recovery rates.

- a 1% change in interest rate equals a 6.3% change in the liability including the cost of living adjustment
- a change in the cost of living adjustment of 1% equals a 6.7% change in the liability
- a 10% change in recovery rates equals a 5.5% change in the liability

The provision for claims payable is long term in nature. The Fund has no intention of settling its obligation in the near term. Therefore it is not practical for the Fund to determine the fair value of the provision for claims payable.

4. Administration Expenses

The Public Employees Benefits Agency Revolving Fund administers the Public Employees Disability Income Fund for a mutually agreed upon fee. The Public Employees Disability Income Fund pays the annual administration expenses to the Public Employees Benefits Agency Revolving Fund on agreed upon dates.

5. Management Fees

The Minister of Finance is authorized to invest any part of the monies of the Disability Income Fund in any securities authorized for investment pursuant to the "Investment Policy Guidelines".

The Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Investment Counselling Limited.

6. Legal

The Fund is a party to a number of lawsuits relating to disability benefits for amounts totaling $554,722. The ultimate outcome of these lawsuits is not yet determinable. Benefit payments arising from the resolution of these lawsuits will be accounted for as an expenditure of the year in which the settlement occurs.

7. Investment Performance

The Fund's investments are represented by the amounts due from Co-operators Life Insurance Company (see note 2). Following is a summary of the Fund's investment performance:

	2001	Four year annualized return
Fund (a)	4.5%	7.0%
Benchmark (b)	0.7%	6.3%

(a) The annual returns are before deducting investment expenses.

(b) The benchmark return is the Fund's target rate of return for its segregated fund. The benchmark return is calculated using actual returns and the Fund's planned investment portfolio for its segregated fund.

8. Fair Value of Financial Assets and Financial Liabilities

The following methods and assumptions were used to estimate the fair value of each class of financial assets and financial liabilities.

For the financial instruments including:

(a) receivables, and
(b) accounts payable

the carrying value approximates the fair value due to their immediate or short-term maturity. The Fund is exposed to minimal credit risk from the potential non-payment of accounts receivable as

these receivables are from government agencies and were collected shortly after year end.

9. Budget

PEBA prepares and approves the Public Employees Disability Income Fund's budget. PEBA included the Public Employees Disability Fund's budget in PEBA's budget submission to Treasury Board.

10. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan collectively referred to as "related parties". These transactions are recorded at agreed upon exchange amounts.

Due to the nature of the Fund, substantially all premiums are received from related parties.

At year-end, the following amounts were due to/from related parties as a result of the transactions referred to above:

	2001	2000
Accounts receivable	$401,095	$471,398
Accounts payable	$ 43,312	$179,526

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.